# Takaful in Asean: Gaining Momentum With Malaysia Leading the Way

Takaful or Islamic insurance is still in its infancy in the 10 countries that form Asean (Association of South East Asian Nations). Malaysia, the first country to introduce takaful in 1985, is leading the way with the issue of four additional takaful licences early this year in a bid that was very heavily contested by several companies. This lead article by our editorial consultant, ***Hafiz Mohamed***, examines attempts within Asean to nurture the market.



Takaful in Asean began in Malaysia in 1985, in Brunei in 1993 and in Indonesia and Singapore in 1995. However, takaful remains an insignificant insurance segment in Asean, despite the fact that Muslims account for 49% of the region's population of 555.5 million people and that followers of the Islamic faith represent 16% of the world's total Muslim population. The Asean countries are: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.

In some of these countries, such as Laos and Myanmar, the insurance market as a whole, let alone takaful, is still very much under-developed.

### Newness of Takaful Concept

So new is Islamic insurance in Asean that:

- It is difficult to ascertain the number of takaful companies in some Asean member states;
- The insurance authorities in several Asean countries do not collect statistics specific to takaful. The data are included as part of life insurance or classified in the "others" category.
- Takaful penetration in any Asean country is at most 5%. This percentage is attained in Malaysia whose population numbers a mere 26 million.

But Malaysia stands tall as a global leader in takaful, as being one of the first countries in the world, and the only market in Asean, to have a separate legislation and regulatory framework on takaful. The region is, however, fortunate to have a dedicated Asean retakaful company set up in 1997 to help service some of the needs of the takaful players.

### Market size

Malaysia, the oldest and largest takaful market in Asean, has reported that the volume of Islamic insurance was RM1.3 billion (US$353.3 million) in 2005. This is almost a fifth of the global takaful market of nearly US$2 billion, although some observers note that relative to the percentage of Muslims in the region, this is still very much only a fraction.

Takaful statistics are not available for the most of the other Asean members because the business is too small to warrant its own separate classification.

Several industry players name Malaysia and Indonesia as the two Asean countries with the most takaful potential. One source notes that Malaysia has been active in granting new takaful licences and that takaful penetration in the country, at 5.4% in 2005, is still low.

The new licensees are all actively rushing to be the first to market a new wave of takaful products in Malaysia in October or November.

The existing takaful operators have also been stepping up their competitive edge to face the increased competition with Takaful Nasional and Mayban Takaful having merged as a strategic pre-emptive strike.

The whole takaful scene in Malaysia is set to change with stronger growth projected. The traditional insurers are also waking up to the real challenge that takaful pose to their business. This is widely expected to give a boost to the growth and penetration of takaful.

Indonesia is regarded as a promising market because it is home to the world's biggest Muslim population, but the country is a laggard in the sector. The slow development is attributed to political uncertainty, which rocked the country between 1998 and 2004 as the nation made a transition to democracy.

Mr Osman Jair, General Manager of the Brunei-based takaful company, Insurans Islam TAIB, expects Brunei and Indonesia to also have a strong potential in the taka-

ful sector.

He said: "Both countries have high percentages of Muslim populations, but the market will not only be targeted to the Muslims only. Both of these countries are still striving to expand their market. For Brunei, we do the best we can to capture the market in promoting takaful since we have been in the market for more than a decade."

He notes that Indonesia is a big country and densely populated. For Brunei, he said that while the sultanate's Muslim population was large in percentage terms, the takaful market in the oil-rich nation was tiny. He added: "Our population is only 350,000, and it is unfair to compare us with the whole market."

Overall, takaful already accounts for more than 30% of the insurance and protection market in Brunei. He believes that more marketing needs to be done to promote takaful.

"In both Brunei and Indonesia, the number of conventional insurance companies is more than the number of takaful players. Therefore, takaful operators have to work harder to promote takaful."

Takaful windows, though, are widespread, particularly in Indonesia. A takaful window is an insurer which offers takaful services but is not licensed as a takaful operator.

Although the Philippines also have a significant Muslim population, followers of the faith are a minority in the country where the majority is Catholics.

### Class of Business

In the family takaful sector in Asean, investment-linked plans and endowment education schemes are popular. General takaful products are typically those in mortgage, home financing and car insurance.

Family takaful, motor insurance and retakaful were rated as the top three areas of interest to takaful players in a survey of 34 respondents carried out at an Asian takaful conference in March 2006.

### Regulations and Standards

Malaysia is ahead of the rest of the pack on the regulatory front and is widely regarded as a trail blazer in setting up a separate takaful regulatory framework. Other countries incorporate takaful as part of the overall insurance legislative and regulatory system.

There are calls, though, for a global body to set takaful standards and supervision. A tentative start has been made in this field. The Islamic Financial Services Board (IFSB) was formed by the 57-state Organisation of Islamic Conferences in Kuala Lumpur in 2002 to serve as an international-standard setting body of regulatory and supervisory agencies, aimed at ensuring the soundness and stability of the Islamic financial services industry.

### Different Models and Interpretations

One of the sticky issues in takaful is the varying Shariah interpretations about Islamic financial services that differ in several countries and within markets, too. This could impede the development of takaful although there has been calls made at several conferences to recognise the different models as complementary within the wider Islamic finance community, and not engage in competition by labelling certain models as "haram" (sinful).

Mr Abdul Azim Mohd Zabidi, chairman of the Malaysian bank, Bank Simpanan Nasional (BSN), which operates an Islamic window said that certain Islamic products accepted in Malaysia were not accepted in the Middle East.

However, others shrug off the issue, believing that the obstacles posed by different interpretations are surmountable because they are about operational definitions. Mr



**Asean Population Statistics 2005**

| Member state | Population million[1] | Muslims as % of total population[1] | GDP per capita current prices[2] (US$) | Overall Insurance Density[3] (US$) | Overall Insurance Penetration[3] (%) |
|---|---|---|---|---|---|
| Brunei | 0.4 | 67 | 17,632 | NA | NA |
| Cambodia | 13.3 | 7 | 375 | NA | NA |
| Indonesia | 221.9 | 88 | 1,259 | 19.4 | 1.52 |
| Laos | 5.9 | 1 | 463 | NA | NA |
| Malaysia | 26.1 | 59 | 5,040 | 283.3 | 5.42 |
| Myanmar | 50.5 | 15 | 97 | NA | NA |
| Philippines | 84.8 | 10 | 1159 | 17.2 | 1.48 |
| Singapore | 4.3 | 16 | 26,835 | 1,983.4 | 7.47 |
| Thailand | 65.0 | 10 | 2,577 | 99.0 | 3.61 |
| Vietnam | 83.3 | 1 | 612 | 10.1 | 1.62 |

Sources:
[1] www.islampopulation.com
[2] IMF - World Economic Outlook Database, April 2006
[3] Swiss Re Sigma report (not restricted to takaful)

Mazilan Musa, a senior fellow at the Institute of Islamic Understanding Malaysia (IKIM), said: "The differences are a minor disagreement and not a fundamental one. Malaysia has taken the path that Islamic banking products are permissible if there is no evidence to suggest otherwise."

### Reinsurance Support

One of the key issues being discussed is whether all takaful business can only be reinsured with retakaful companies. The reality is that there is insufficient retakaful capacity at this time although there are several retakaful companies being set up. Labuan Re is said to be looking to launch their retakaful entity by the end of the year.

According to Mr Wan Zamri Wan Ismail, President Director of Syarikat Takaful Indonesia, while the estimated size of global takaful contributions is US$1.5 billion, the reinsurance contribution is about US$45 million. Projecting an annual 30% increase in takaful and 15% in retakaful, he estimated that by 2010, the size of the business would have grown to US$8 billion and US$640 million, respectively. He estimated that with 4% retakaful capacity in 2006, assuming 80% retention by takaful operators and 20% reinsured out, only 20% of that reinsured amount goes to retakaful operators while 80% still goes to conventional reinsurance.

Hence, global reinsurers do have a role to play in the takaful business and many are in the process of taking up positions to be geared to serve the takaful market.



### Challenges and Prospects

The takaful sector in Asean faces the same challenges as those confronted by other Islamic markets including those in the Middle East. As Mr Aminuddin Md Desa, CEO of the merged Takaful Nasional and Mayban Takaful, and former Chairman of Malaysian Takaful Association, said at the 20th anniversary celebration of Takaful in Malaysia last November, despite the potential, takaful business was not expanding as fast as had been hoped for because of hesitation about the takaful system, wrong perceptions of the concept, and Muslim perception towards risks and responses, savings rates and discipline.

The top issues in takaful in Asean are human resources, consumer awareness and retakaful capacity.

Other challenges include the legal infrastructure and product development. Education, both for consumers – many of whom remain unconvinced or unaware of the benefits of the Shariah-compliant insurance – as well as for industry professionals, remains a key issue to be tackled.

In Malaysia, the industry, represented by the Malaysia Takaful Association, is working with the Islamic Banking and Finance Institute Malaysia (IBFIM) to develop training and certification programmes. Bank Negara has also set up the International Centre For Education In Islamic Finance (INCIEF) to nurture Islamic finance professionals and expertise to ensure that there are sufficient trained professionals to meet the demand for talent from the many takaful operators sprouting up around the world. The institute's main objective is to produce high-calibre professionals for the global Islamic financial services industry through certification programmes. INCIEF will also undertake research and development of Islamic financial products.

There is a need, too, to strengthen the takaful institutional infrastructure; corporate governance and risk management; as well as the Shariah framework. Takaful business has to be more transparent with the policyholder knowing upfront the formula and mechanism for profit-sharing.

Room for growth in the takaful industry is expected from changing demographics, rising affluence and higher awareness of takaful. Market growth will also be supported by the development of the Shariah-based capital market that will widen investment avenues for operators to improve their asset-liability management, through such instruments as sukuks or Islamic bonds.

Further liberalisation measures are expected in future. This will include granting greater flexibility to foreign

#### Takaful Offerings In Singapore

- HSBC Global Takaful fund
- HSBC Takaful Sinaran fund
- HSBC Takaful Asia Pacific fund
- NTUC Income Takaful Fund
- DBS Mendaki Global fund

These are takaful funds that contain a minor insurance component and are investment-linked products.

#### Some Takaful Companies/Windows In Asean

**Brunei**

- Takaful IBB
- Insurans Islam TAIB
- Takaful Bank Pembangunan Islam (BPISB)

**Indonesia**

- Asuransi Mubarakah
- Asuransi Takaful Keluarga
- Syarikat Takaful Indonesia
- Ansuransi Takaful Umum
- Takaful Ansuransi
- Asuransi Jasindo Takaful
- Asuransi Tripakarta Syariah

**Malaysia**

- Syarikat Takaful Malaysia
- Takaful Nasional
- Mayban Takaful
- Takaful Ikhlas
- Commerce Takaful
- HSBC Amanah Takaful
- Hong Leong Tokio Marine Takaful
- Prudential-BSN Takaful
- MAA-Solidarity

players in joint ventures, approving windows or bancatakaful initiatives and enhancing investment management.

On the technology front, Mr Syed Moheeb Syed Kamarulzaman, CEO of Takaful Ikhlas, urged takaful operators to adopt a mindset to leverage on the Internet to increase visibility, align IT with business needs, leverage on existing investments, cut redundancy and increase speed to market.

### Regulations and Beyond

The strengthening of regulations and higher disclosure standards will also engender greater discipline which will, in turn, attract more consumer interest in takaful. The issue of minimum capital requirements must also be addressed. Most regimes treat takaful as a niche or specialty product offered by traditional insurers and expect them to meet the minimum capital and solvency requirements. Malaysia, of course, has a separate treatment for takaful companies.

Another factor spurring takaful growth is the introduction of more investment-linked products for consumers, particularly those related to Islamic equity funds or bonds.

However, the biggest boost for the takaful industry in Asean is that financial authorities in the region are now stirring, and looking to do more to expand the Islamic insurance pie.

### The Way Forward: A 10-Pronged Approach

Summing up succinctly the way forward, seasoned veteran takaful operator Mr Aminuddin suggests a 10-step approach to boost the growth of takaful:

- Set up an appropriate platform to protect and co-ordinate takaful operations worldwide, eg Organisation of the Islamic Conference (OIC) and Islamic Development Bank (IDB);
- Provide platform and infrastructure that enable the authority to regulate and supervise takaful operators;
- Strengthen financial risk management to support the increasing demand for attractive investment options;
- Provide unlimited access of services particularly to low-income sectors;
- Increase use and acceptance of Internet services;
- Intelligent product design that satisfies needs of the market;
- Build partnership with other takaful operators globally in providing services;
- Expansion and modernising distribution systems for comprehensive wealth management services, lower distribution costs and more effective market penetration;
- Initiate special programmes to give advice and training in core areas;
- Educate the community in the concept and importance of takaful.M



## Cross Border Integration

To promote greater international integration which will expand the global takaful market, regulators are allowing foreign players to acquire equity interests in or to form strategic alliances with domestic companies. In this respect, Malaysia issued takaful licences for several joint-venture companies in early 2006.

Malaysia and the Islamic Development Bank (IDB)established a 12-member committee in 2004 to promote the development of takaful and retakaful in the Organisation of the Islamic Conference (OIC) member countries. In fact, Malaysia is prepared to help OIC states to set up at least one takaful company in each of their markets.

Malaysian insurer, Takaful Nasional, has ventured into Pakistan, while the IDB subsidiary, the Islamic Corporation for the Development of Private Sector has taken up some equity in Aril.

In October 1995, the Asian Takaful Group (ATG) was formed to forge co-operation among takaful operators in the region. The association started as a grouping of takaful operators in Brunei, Indonesia, Malaysia and Singapore, but later accepted players from non-Asean states as members. The grouping's secretariat is at Asean Retakaful International (L) (Aril), which was established in 1997 in Labuan as an offshore retakaful company.

Aril was set up as a vehicle for more dynamic retakaful exchanges among ATG members and to reduce their dependence on conventional reinsurance.M

### Members of Asian Takaful Group (ATG)

**Brunei**
- Takaful IBB
- Insurans Islam TAIB
- Takaful IDBB

**Indonesia**
- Takaful Indonesia
- Asuransi Takaful Umum
- Asuransi Takaful Keluarga
- Asuransi Tri Pakarta Syariah
- Reasuransi Internasional Indonesia (Reindo)

**Malaysia**
- Takaful Malaysia
- Takaful Nasional
- Asean Retakaful International (L)
- Takaful Ikhlas
- Mayban Takaful
- Labuan Reinsurance (L)
- Commerce Takaful

**Non-Asean members of ATG**
- Amana Takaful - Sri Lanka
- Arabian Malaysian Takaful - Saudi Arabia
- Best Reinsurance - Tunisia
- Qatar Islamic Insurance
- Takaful Re - UAE

# Thumbnail Sketch Of Takaful In Selected Asean Countries

## Brunei

The takaful sector started in Brunei in 1993 with the establishment of two takaful operators. Since then, an increasing number of Muslims and non-Muslims are meeting their vehicle, home and insurance needs through Islamic finance, allowing Islamic banking assets in the sultanate to expand by 15% to 20% annually. Market growth prompted the entry of a third takaful operator in the sultanate in 2001. The lion's share of the takaful business is in mortgage or financing related products.

## Indonesia

Takaful operations began in Indonesia in 1995 with two operators, one writing non-family business and the other engaged in family business. In the past 10 years, as the market grew, conventional insurers entered the fray by offering window takaful services.

Asuransi Takaful Keluarga launched its first takaful life programme in 1995, a move which spurred a jump in premiums for the takaful operator. The company enjoyed a 207% leap in life insurance and annuity premiums, from RP 3.24 billion in 1995 to Rp10 billion in 1996.

At the same time, Asuransi Takaful Umum was established to provide non-life insurance protection. In 1996, Syarikat Takaful Indonesia was founded as a holding company of both takaful companies.

At present, there are 26 players in the Indonesian takaful market, with most of them being windows, and one reinsurer offering a takaful window. Indonesia's central bank forecasts that Islamic banking assets will expand more than 12-fold from US$1.48 billion to US$18.2 billion by 2011. Their share of total banking assets is expected to increase from 2% at present to between 5 to 9%.

The state electricity firm Perusahaan Listrik Negara (PLN) is set to issue up to US$2.5 billion this year in global sukuk. If successful, the move could lead to more offerings from Indonesian state firms. Indonesian takaful operators also insure oil and gas projects.

## Malaysia

The first takaful operator was established in Malaysia in 1985 to meet demand from insurance buyers for Shariah-compliant products. To provide the legal basis for takaful operations, the Takaful Act came into effect in 1984. Takaful operations are regulated and supervised by Bank Negara Malaysia (BNM), the country's regulator.

The Malaysian takaful market is expanding at a good clip. According to statistics provided by BNM, the combined net contributions of family and general takaful sectors grew by 18.8% to RM1.3 billion ($353.3 million) in 2005. Total assets of takaful funds expanded in tandem by 16.9% to reach RM5.9 billion ($1.6 billion). Furthermore, bancatakaful accounted for 20% of the share of the combined net contributions, from 6.5% in 2004.

Takaful comprises mainly individual and group business as well as mortgage.

## Singapore

Two local insurers have been active in offering takaful products through two family takaful windows in 1995, followed by a non-family takaful window in 2000. Much of the family takaful business is generated from investment-linked products.

Singapore wants to widen the array of Islamic financial services, and has extended tax incentives to the sector. In recent months, asset managers and sukuk issue managers have held roadshows in the island state to reach out to institutional investors.

With international insurers, reinsurers and intermediaries operating in the island state, takaful players can seek to collaborate with reinsurers in Singapore to provide retakaful capacity.

In 2004, Millea Asia established Tokio Marine Nichida Retakaful (TMN Retakaful) in Singapore as a retakaful company specialising in family takaful.

Investment avenues for takaful operators have also been expanded. The real estate investment trust (Reit) industry in Singapore and three Islamic property funds have already been set up in Singapore, with funds of over US$1.35 billion earmarked for investment in Asian real estate.

There are, at present, more than S$500 million (US$315 million) in takaful funds and around US$2 billion worth of Shariah-compliant real estate funds managed out of Singapore.